

**CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name City of Litchfield Tax Increment Finance Auth.	County Hillsdale
Audit Date 6/30/05	Opinion Date 8/17/05	Date Accountant Report Submitted to State: 10/12/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

Osbourne, March, Condon & Co., P.C.

Street Address

184 W. Carleton Road

City

Hillsdale

State

MI

ZIP

49242

Accountant Signature

Stephen W. Birkel, CPA

Date

11/22/05

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	i - ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii - v
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	1
STATEMENT OF ACTIVITIES	2
FUND FINANCIAL STATEMENTS	
BALANCE SHEET – GOVERNMENTAL FUND	3
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET WITH THE STATEMENT OF NET ASSETS	4
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGETARY COMPARISON – GOVERNMENTAL FUND	5
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TYPE TO THE STATEMENT OF ACTIVITIES	6
NOTES TO FINANCIAL STATEMENTS	7 - 12
OTHER REPORTS	
GAO <i>GOVERNMENT AUDITING STANDARDS REPORT</i>	13 - 14
COMMUNICATION TO AUDIT COMMITTEE	15 - 16



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

INDEPENDENT AUDITOR'S REPORT

To the Tax Increment Financing
Authority Board
City of Litchfield, Michigan
Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activity and major fund activity of the Tax Increment Financing Authority (TIFA), a component unit of City of Litchfield, Michigan, as of June 30, 2005, and for the year then ended. The component unit financial statements are the responsibility of the Tax Increment Financing Authority (TIFA) management, a component unit of City of Litchfield, Michigan. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and major fund activity of the Tax Increment Financing Authority (TIFA), a component unit of City of Litchfield, Michigan, as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages iii through vi are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated, August 17, 2005, on our consideration of the Tax Increment Financing Authority's (TIFA), a component unit of City of Litchfield, Michigan, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

Hillsdale, Michigan
August 17, 2005

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)

Management's Discussion and Analysis

The following discussion and analysis of the financial performance for the City of Litchfield, Michigan Tax Increment Finance Authority (the "Authority") provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Authority's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2005:

- The Authority was established in 1984 with an expiration date set at December 31, 2004. Having determined that the goals set forth in the original TIFA development plan have not yet been completed, the City Council approved an extension of the term of existence for a period up to and including December 31, 2025.
- Property taxes are the Authority's single, largest source of revenue. The Authority captured approximately \$37,862,000 of the City's total taxable value for fiscal year ending June 30, 2005, which represents a decrease of \$1,008,000 or 2.5 percent. Additionally, the Authority captured an average of \$12,814,000 of other local units of government's total taxable value in the City of Litchfield for fiscal year ending June 30, 2005 as well, which represents a decrease of \$767,156 or 5.6 percent. These decreases were primarily due to the fact that there were State Tax Commission and Tribunal judgments during the year resulting in an overall reduction in taxable value.
- The Authority contributed to the City of Litchfield, Michigan \$33,000 less than it did in the previous year. The additional monies from the previous year were contributed towards capital outlays.
- Development expense decreased approximately \$151,000 or 78.1 percent from the previous year primarily due to a reduction in financial assistance requests from local industrial corporations for expansion of their facilities and fewer prospective new industrial park clients to entice with developmental projects. Scheduling of the housing and industrial park expansion projects also played a role in the decrease.

Using the Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)

Management's Discussion and Analysis

The Authority as a Whole

The following table shows, in a condensed format, the net assets as of the current in comparison to prior year:

	Governmental Activities	
	2005	2004
Assets		
Current assets	\$ 2,189,942	\$ 2,634,832
Noncurrent assets	1,509,746	439,550
Total Assets	<u>\$ 3,699,688</u>	<u>\$ 3,074,382</u>
Liabilities and Net Assets		
Liabilities:		
Current Liabilities	\$ 113,004	\$
Net Assets:		
Invested in capital - no related debt	\$ 305,900	\$ 312,200
Unrestricted	3,280,784	2,762,182
Total Net Assets	<u>\$ 3,586,684</u>	<u>\$ 3,074,382</u>
Total Liabilities and Total Net Assets	<u>\$ 3,699,688</u>	<u>\$ 3,074,382</u>

The Authority's combined net assets increased by approximately 20 percent from a year ago – increasing from \$3.1 million to \$3.7 million.

The increase in unrestricted net assets of approximately \$518,600 was a planned increase which is intended for future development in the City of Litchfield, Michigan industrial park and housing projects.

The following table shows the changes of the net assets during the current year in comparison to prior year:

	Governmental Activities	
	2005	2004
Revenue		
General Revenue:		
Property taxes	\$ 719,571	\$ 742,239
Interest	36,414	32,767
Rental income	31,625	16,500
Total Revenue	<u>\$ 787,610</u>	<u>\$ 791,506</u>
Program Expenses		
Development	\$ 42,430	\$ 194,097
Contributions to primary government	210,000	243,000
Depreciation	6,300	6,300
Other	16,578	23,756
Total Program Expenses	<u>\$ 275,308</u>	<u>\$ 467,153</u>
Change in Net Assets	<u>\$ 512,302</u>	<u>\$ 324,353</u>

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)

Management's Discussion and Analysis

Governmental Activities

In fiscal year 2005, decreases experienced in property taxes resulted from State Tax Commission and Tribunal judgments reducing the taxable value TIFA can capture upon. There has been no change in local units operating millage rates that the Authority captures.

As expected, expenses remained at a consistent level. In 2005 and 2004 the Authority continued carrying out various development projects through out the City of Litchfield. The Authority continues to build up its equity for future plans of further development of the industrial park and housing projects for anticipated community growth.

Operating Highlights

The Authority accounts for all development costs it incurs. The budget in recent years has been developed to continue carrying out a variety of development projects. The Budget is developed based on those planned development costs. The budget is monitored closely and amended periodically. The result is that actual revenues and expenses are usually within 5 percent of budgeted amounts.

Capital Asset and Debt Administration

At the end of fiscal year 2005, the Authority had approximately \$305,900 (net of depreciation) invested in land and a building that it leases to a local manufacturing business. There is no related infrastructure reported in the year end net capital investment. Any infrastructure developed would be capitalized and depreciated by the City of Litchfield, Michigan.

At June 30, 2005 the Authority did not carry on its financial books any outstanding debt obligations.

Economic Factors and Next Year's Budgets and Rates

It is anticipated that property tax revenue collected and reported in the following fiscal year will remain consistent with current year with the exception of a possible increase equal to the rate of inflation.

The Authority will continue the industrial park and housing expansion projects during the upcoming fiscal year.

There were no significant variances between budget and actual results.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements of the City of Litchfield, Michigan, we welcome you to contact the City of Litchfield's Administrative office located at 221 Jonesville Street, Litchfield, Michigan 49252.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)

STATEMENT OF NET ASSETS

JUNE 30, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Current Assets:	
Cash	\$ 1,643,127
Investment	410,315
Note receivable, current portion	<u>136,500</u>
Total Current Assets	<u>\$ 2,189,942</u>
Noncurrent Assets:	
Note receivable, net of current portion	\$ 363,500
Investment in land	840,346
Capital assets	350,000
Less: accumulated depreciation	<u>(44,100)</u>
Total Noncurrent Assets	<u>\$ 1,509,746</u>
TOTAL ASSETS	<u><u>\$ 3,699,688</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	<u>\$ 113,004</u>
Net Assets:	
Invested in capital assets, net of related debt	\$ 305,900
Unrestricted	<u>3,280,784</u>
Total Net Assets	<u>\$ 3,586,684</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,699,688</u></u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>
GOVERNMENTAL ACTIVITY EXPENSES	
Development	\$ (42,430)
Contributions to primary government	(210,000)
Depreciation	(6,300)
Other	<u>(16,578)</u>
TOTAL GOVERNMENTAL ACTIVITY EXPENSES	<u>\$ (275,308)</u>
General Revenues:	
Property taxes, captured for operations	\$ 719,571
Interest	36,414
Rental income	<u>31,625</u>
Total General Revenues	<u>\$ 787,610</u>
CHANGES IN NET ASSETS	\$ 512,302
NET ASSETS - BEGINNING	<u>3,074,382</u>
NET ASSETS - ENDING	<u><u>\$ 3,586,684</u></u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2005

ASSETS	
Cash	\$ 2,053,442
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	\$ 113,004
FUND BALANCE	
Unreserved, undesignated	\$ 1,940,438
TOTAL NET ASSETS AND LIABILITIES	\$ 2,053,442

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

TAX INCREMENT FINANCING AUTHORITY (TIFA)

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2005

GOVERNMENTAL FUND BALANCE \$ 1,940,438

Amounts reported for governmental activities in the statement of net assets are
different because:

Capital assets used in governmental activities are not financial resources, and
are not reported in the funds

The cost of the capital assets is	\$ 350,000	
Accumulated depreciation is	<u>(44,100)</u>	
		305,900

Note receivable is expected to be collected in future years and is not available to pay for current year expenditures	500,000
--	---------

Investments in land is not a current financial resource and is not reported in the funds	<u>840,346</u>
--	----------------

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 3,586,684</u></u>
---------------------------------------	----------------------------

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

TAX INCREMENT FINANCING AUTHORITY (TIFA)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGETARY COMPARISON - GOVERNMENTAL FUND

YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUES				
Property taxes	\$ 722,000	\$ 722,000	\$ 719,571	\$ (2,429)
Interest	20,000	34,000	36,414	2,414
Rental income	16,000	31,625	31,625	
Other	10,000			
TOTAL REVENUES	<u>\$ 768,000</u>	<u>\$ 787,625</u>	<u>\$ 787,610</u>	<u>\$ (15)</u>
EXPENDITURES				
Development	\$ 3,045,000	\$ 1,337,758	\$ 1,255,426	\$ 82,332
Contributions to primary government	210,000	210,000	210,000	
Other			16,578	(16,578)
TOTAL EXPENDITURES	<u>\$ 3,255,000</u>	<u>\$ 1,547,758</u>	<u>\$ 1,482,004</u>	<u>\$ 65,754</u>
NET CHANGE IN FUND BALANCE	\$ (2,487,000)	\$ (760,133)	\$ (694,394)	\$ 65,739
FUND BALANCE - BEGINNING	<u>2,634,832</u>	<u>2,634,832</u>	<u>2,634,832</u>	
FUND BALANCE - ENDING	<u>\$ 147,832</u>	<u>\$ 1,874,699</u>	<u>\$ 1,940,438</u>	<u>\$ 65,739</u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

TAX INCREMENT FINANCING AUTHORITY (TIFA)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUND TYPE
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND TYPES	\$ (694,394)
---	--------------

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental Funds report capital outlays as expenditures, and in the Statement of Activities these costs are allocated over their estimated useful lives as depreciation	(6,300)
---	---------

Investment in land is an expenditure in governmental funds. However, in governmental activities, the investment is capitalized and recognized as an expenditure when sold. Therefore, the investment is not reported as an expenditure in the statement of activities	<u>1,212,996</u>
--	------------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 512,302</u>
---	-------------------

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tax Increment Financing Authority (TIFA) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

The Tax Increment Financing Authority (TIFA) (the "Authority") is organized and incorporated as authorized by and pursuant to the Tax Increment Finance Authority Act, P.A. 450 of 1981, as amended. The Authority is a component unit of the City of Litchfield, Michigan governed by a separate board appointed by the City Council, created to promote economic growth in the City of Litchfield, Michigan.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all activities of the Authority. Authority's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue. Note: during the year, the Authority did not receive any charges for services or operating grants.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the government receives the cash.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING

The Authority's procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. The Authority's Board submits to the City Council a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year.
5. The budget is adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by City Council. The budget is adopted at the fund level.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2005.

PROPERTY TAX

The City of Litchfield, the primary government, bills and collects property taxes and distributes them to the Authority. Properties are assessed as of December 31, and the related real property taxes are levied and become payable on July 1 of the following year for summer taxes and December 1 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 14, respectively. Delinquent taxes are turned over to the County and added to the County tax roll. The County remits all uncollected delinquent real property tax to the City by June 30. Subsequently, the City remits to the Authority the portion of delinquent real property taxes due to it. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

CAPITAL ASSETS

Capital assets, which include land and buildings, are reported in the government wide financial statements. The Authority defines capital assets as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of 2 years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend an assets life are not capitalized but rather expensed in the period incurred.

Buildings are depreciated using the straight-line method over a fifty year period.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions. The Authority is covered under the City of Litchfield's commercial insurance as a coinsurer for general liability for the aforementioned risks.

There have been no reported claims to the commercial insurance with respect to the Authority in any of the past three years. Additionally, there were no reductions in coverage's obtained through the City of Litchfield's commercial insurance during the past year.

NOTE 2: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The breakdown between deposits and investments for the Authority is as follows:

Cash (checking accounts, savings accounts and certificates of deposits)	\$ 1,643,127
Investment in a money market fund	<u>410,315</u>
Total	<u>\$ 2,053,442</u>

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 2: DEPOSITS AND INVESTMENTS (CONCLUDED)

Deposits

The Authority's deposits were reflected in the accounts of the bank at \$1,643,127. Of that amount, \$600,775 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits Authority funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

Investments

Investments are normally categorized to give an indication of the level of risk assumed by the Authority. As of June 30, 2005, the Authority's investment in a money market fund, totaling \$410,315, was rated AAA by Standard & Poor's rating service. Additionally, there is no custodial risk because the fund is not evidenced by securities that exist in physical or book entry form. The Authority believes that its investment in the money market fund is in compliance with Public Acts 196 of 1997. The money market fund is registered with the SEC.

NOTE 3: INVESTMENT IN LAND

Investment in land represents land developed by the Authority for residential housing and industrial expansion. The Authority anticipates selling the land to developers.

NOTE 4: NOTE RECEIVABLE

During the year the Authority entered into an agreement to loan \$500,000 to a local manufacturing company as an incentive to draw business into the Litchfield area to strengthen the local economy. The loan is comprised of two components: (1) \$400,000 purchase for a building the company is acquiring and (2) \$100,000 for capital expenditures to refurbish, remodel, or improve the exterior of the building and for expenses incurred or paid to any contractor who performs landscaping, or any work to improve the grounds or the exterior of the building.

The terms of the agreement are as follows:

\$400,000 – to be repaid by the company to the Authority over 120 months in monthly installments of \$3,680, that includes interest at the rate of 2.0% per annum, effective July 22, 2005.

\$100,000 – if all of the cash proceeds are used as specified above the full amount will be converted by the Authority into an outright grant and no amount or any accrued interest will be required to be repaid. However, if the proceeds are expended in a manner contrary to what is specified above, the Authority will deem such actions as a default of terms and demand payment in full plus interest at a rate of 2.0% per annum. The local manufacturing company has one year from the date of the note to expend the money. Therefore, the \$100,000 is reported to mature in 2006 in the maturity schedule.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 4: NOTE RECEIVABLE (CONCLUDED)

The following is the maturity schedule of the outstanding \$500,000 for the next ten years:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 136,500	\$ 7,666	\$ 144,166
2007	37,236	6,930	44,166
2008	37,988	6,178	44,166
2009	39,186	4,980	44,166
2010	39,537	4,629	44,166
2011-2015	<u>209,553</u>	<u>10,847</u>	<u>220,400</u>
	<u>\$ 500,000</u>	<u>\$ 41,230</u>	<u>\$ 541,230</u>

NOTE 5: CHANGES IN FIXED ASSETS

A summary of capital assets of the Authority activities was as follows:

	<u>Balance 7/01/04</u>	<u>Additions</u>	<u>Disposals & Adjustments</u>	<u>Balance 6/30/05</u>
Assets not being depreciated:				
Land	\$ 35,000	\$	\$	\$ 35,000
Capital assets being depreciated:				
Building	<u>315,000</u>	<u> </u>	<u> </u>	<u>315,000</u>
	<u>\$ 350,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 350,000</u>
Accumulated depreciation:				
Building	<u>\$ 37,800</u>	<u>\$ 6,300</u>	<u>\$</u>	<u>\$ 44,100</u>
Net capital assets	<u>\$ 312,200</u>	<u>\$ 6,300</u>	<u>\$</u>	<u>\$ 305,900</u>

CITY OF LITCHFIELD, MICHIGAN

TAX INCREMENT FINANCING AUTHORITY (TIFA)

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)

JUNE 30, 2005

NOTE 6: LEASES

The Authority leases property it owns to various organizations in the community. The terms of the leases vary and are renewable annually. At year ended June 30, 2005, the Authority recognized lease revenue in the amount of \$31,625.

NOTE 7: IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

For the year ended June 30, 2005 the Authority implemented the following Governmental Accounting Standards Board pronouncements:

Statements

No. 40 – *Deposit and Investment Risk Disclosures*

OTHER REPORTS



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Tax Increment Financing Authority Board
City of Litchfield, Michigan
Litchfield, Michigan

We have audited the financial statements of the governmental activity and fund information of the Tax Increment Financing Authority (TIFA), a component unit of City of Litchfield, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Tax Increment Financing Authority (TIFA), Michigan's basic financial statements and have issued our report thereon dated August 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Tax Increment Financing Authority (TIFA), a component unit of City of Litchfield, Michigan, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Tax Increment Financing Authority (TIFA), a component unit of City of Litchfield, Michigan, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Tax Increment Financing Authority (TIFA) Board, City Council, management, and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

Oshbourne, March, Condon & Co P.C.

Certified Public Accountants

Hillsdale, Michigan
August 17, 2005



Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

August 17, 2005

To the Tax Increment Financing Authority Board
City of Litchfield, Michigan, TIFA
Litchfield, Michigan

We have audited the financial statements of the City of Litchfield, Michigan Tax Increment Financing Authority Board (TIFA) for the year ended June 30, 2005, and have issued our report thereon dated August 17, 2005. Professional standards require that we provide you with the following information related to our audit.

1. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by TIFA are described in Note 1 to the financial statements. We noted no transactions entered into by TIFA during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

2. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of the significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Budget information is the only estimate noted during our audit.

3. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on TIFA's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the TIFA, either individually or in the aggregate, indicate matters that could have a significant effect on the TIFA's financial reporting process.

4. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

5. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the TIFA's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

6. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the TIFA auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

7. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the TIFA. It is not intended to be and should not be used by anyone other than these specified parties.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants